

Budget Overview - An Executive Summary -

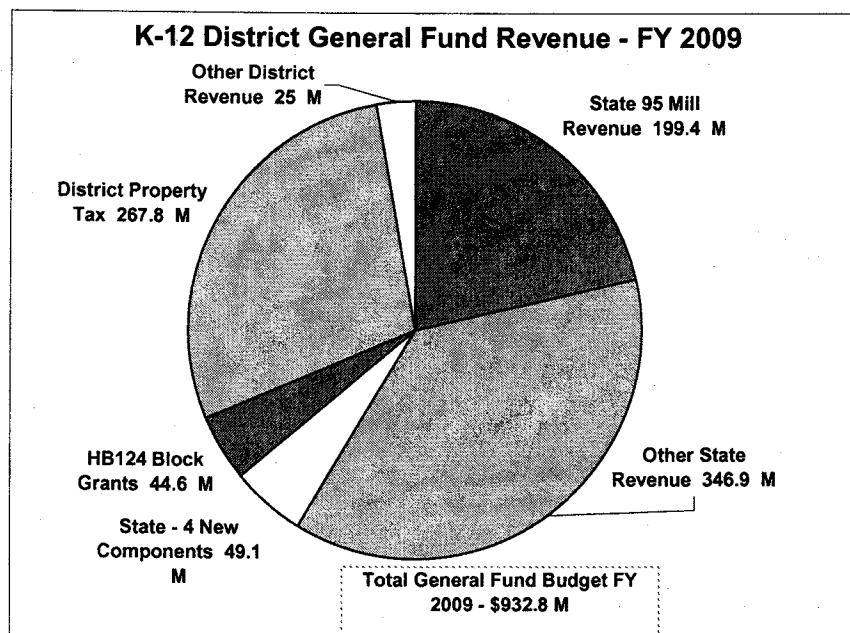


PUBLIC SCHOOL FUNDING – A PRIMER

OVERVIEW

The purpose of this section is to explain how K-12 education is funded. This section focuses on the major district and county funds for which the state supplies at least some of the funding.

Figure 1



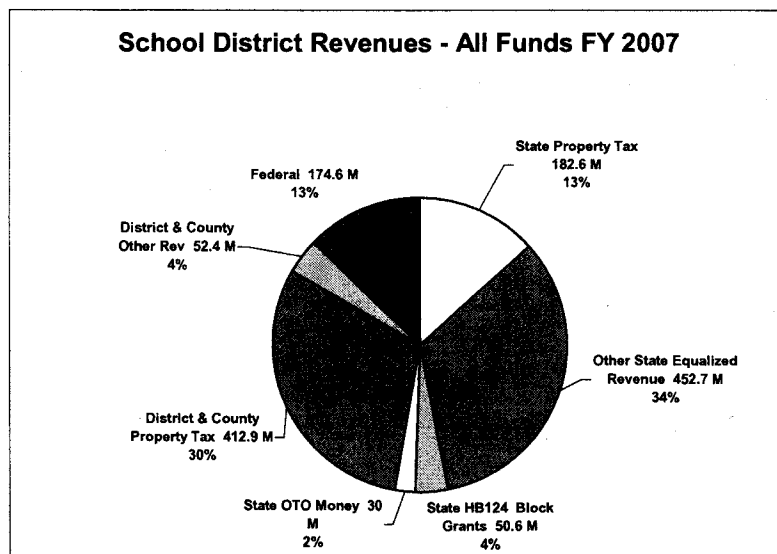
The state's share is one of the more controversial concepts in school funding. The state share of district general fund revenue has declined over the years. In FY 1991, the state's share of district general fund revenue was 71.0 percent. As shown in Figure 1, the state's share of general fund revenue has fallen to 63.8 percent in FY 2009, although this is above the state share in recent years when it was as low as 60 percent. The state's share includes

property tax (95 mills) and other state tax revenues (primarily income tax). The local share includes property taxes levied for schools by the district or the county, as well as other district and county revenue. HB 124 block grants, which include reimbursements associated with HB 20 and SB 417, are state payments to districts and county education accounts to reimburse these funds for revenues that now flow to the state. They are not included in this measure of the state share.

As shown in Figure 2, the state's share of revenue in all district funds was 49.1 percent in FY 2007, of which 2.2 percent was one time only. State HB 124 block grants add another 3.7 percent.

School districts typically may spend out of ten budgeted funds, and many schools spend out of smaller non-budgeted funds. Any fund that is supported by property tax must be budgeted.

Figure 2



School districts' budgeted funds include: 1) general fund; 2) retirement fund; 3) transportation fund; 4) debt service fund; 5) bus reserve fund; 6) adult education fund; 7) tuition fund; 8) building reserve fund; 9) flexibility fund; and 10) technology acquisitions fund. This primer will focus on the first four of these, since state support in these funds is the most significant.

A SHORT HISTORY OF LEGISLATIVE CHANGES IN K-12 FUNDING

Figure 3 shows the impact of legislation on BASE Amount for School Equity (CASE) aid entitlements since FY 1994.

Figure 3

School District Entitlements

Component	FY1994 Actual	FY95-97 Actual	FY1998 Actual	FY1999 Actual	FY2000 Actual	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual
Bill Authorizing Entitlement Change	HB667	HB22	HB47	HB47	SB100	SB100/ HB4	HB121	HB121	SB424	SB424	HB63	HB63	SB1 (SS)	SB1 (SS)
Basic (Per District) Entitlements														
Elementary	<u>\$18,000</u>	<u>\$17,190</u>	<u>\$18,000</u>	<u>\$18,000</u>	<u>\$18,000</u>	<u>\$18,540</u>	<u>\$18,889</u>	<u>\$19,244</u>	<u>\$19,456</u>	<u>\$19,859</u>	<u>\$20,275</u>	<u>\$20,718</u>	<u>\$21,290</u>	<u>\$21,922</u>
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	1.9%	1.9%	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%
High School	<u>\$200,000</u>	<u>\$191,000</u>	<u>\$200,000</u>	<u>\$200,000</u>	<u>\$200,000</u>	<u>\$206,000</u>	<u>\$209,873</u>	<u>\$213,819</u>	<u>\$216,171</u>	<u>\$220,646</u>	<u>\$225,273</u>	<u>\$230,199</u>	<u>\$236,552</u>	<u>\$243,649</u>
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	1.9%	1.9%	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%
Middle School														
Percent Change														
													60,275	62,083
													NA	3.0%
Per ANB Entitlements														
Elementary	<u>\$3,500</u>	<u>\$3,343</u>	<u>\$3,376</u>	<u>\$3,410</u>	<u>\$3,529</u>	<u>\$3,763</u>	<u>\$3,834</u>	<u>\$3,906</u>	<u>\$3,949</u>	<u>\$4,031</u>	<u>\$4,366</u>	<u>\$4,456</u>	<u>\$4,579</u>	<u>\$4,716</u>
Percent Change		-4.5%	1.0%	1.0%	3.5%	6.6%	1.9%	1.9%	1.1%	2.1%	8.3%	2.1%	2.8%	3.0%
High School	<u>\$4,900</u>	<u>\$4,680</u>	<u>\$4,726</u>	<u>\$4,773</u>	<u>\$4,821</u>	<u>\$5,015</u>	<u>\$5,109</u>	<u>\$5,205</u>	<u>\$5,262</u>	<u>\$5,371</u>	<u>\$5,584</u>	<u>\$5,704</u>	<u>\$5,861</u>	<u>\$6,037</u>
Percent Change		-4.5%	1.0%	1.0%	1.0%	4.0%	1.9%	1.9%	1.1%	2.1%	4.0%	2.1%	2.8%	3.0%
Per ANB Decrements														
Elementary	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
High School	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50
Per ANB Decrement Stop Loss														
Elementary	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
High School	800	800	800	800	800	800	800	800	800	800	800	800	800	800
Quality Educator Payment												\$2,000	\$3,036	\$3,042
At Risk Payment												\$5,000,000	\$5,000,000	\$5,000,000
Indian Ed For All Payment												\$20.40	\$20.40	\$20.40
Indian Achievement Gap Payment												\$200	\$200	\$200
GTB Guarantee Ratio	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%	193%	193%
Base Budget Components														
Direct State Aid	40.0%	40.0%	40.0%	40.0%	41.1%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Guaranteed tax base aid	40.0%	40.0%	40.0%	40.0%	38.9%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Special Ed (Millions)	\$28.5	\$28.9	\$28.5	\$28.7	\$30.0	\$33.5	\$33.9	\$34.9	\$34.9	\$36.4	\$38.5	\$39.3	\$40.4	\$41.6

Bill and session year: SB 100, 1999; HB 4, May SS, 2000; HB121, 2001; SB424, 2003; HB 63, 2005; HB1, 2005 SS; SB1 2007SS

In the regular session in 1993, HB 667 created the current system of school funding. The bill put into law the method by which districts build their general fund budgets and how they are to fund the general fund budget. (See below for the details). In essence, districts build their general fund budgets by adding two entitlements defined in law, the basic entitlement (one per district) and the per ANB entitlement. ANB stands for Average Number Belonging and is a measure of the number of children in a district. Beginning in FY 2007, four new components were added to the school district budgeting formula: 1. the quality educator payment, based on the number of certified educators in the district; 2. the Indian education for all payment, based on the ANB in the district; 3. the at risk payment, distributed as federal Title I funds are distributed; and 4. the Indian achievement gap payment, distributed on the count of Indian children in each district.

The levels of entitlements under HB667 were in operation for FY 1994 only. The legislature then passed HB22 during the special session of 1993 and cut entitlements by 4.5 percent for FY 1995 through FY 1997. On average statewide, ANB was increasing in these years.

HB47 was passed by the 1997 legislature and raised per-ANB entitlements beginning in FY 1998 by 1 percent per year, and the basic entitlement in FY 1998 by 4.7 percent. ANB began declining in FY 1998.

SB 100 was passed by the 1999 legislature and increased per-ANB entitlements by 1 percent for high schools and by 3.5 percent for elementary schools in each year of the 2001 biennium. The direct state aid percent was raised from 40.0 percent to 41.1 percent in FY 2000 and to 41.8 percent in FY 2001. SB 100 also increased special education funding by approximately \$1.5 million per year.

Then in special session, in May 2000, HB 4 further raised the per-ANB entitlements in FY 2001 by 3.0 percent for both elementary and high schools, and raised the direct state aid to 44.7 percent. The latter resulted in a substantial property tax reduction for local taxpayers in FY 2001.

During the 2001 legislative session, HB 121 raised entitlements by 1.88 percent in FY 2002 and by an additional 1.88 percent in FY 2003. In addition, SB 390 created a new flexibility account from which districts could spend for nearly the same purposes as the district general fund. The legislature funded the district flexibility accounts with \$5.0 million in state general fund dollars. This was reduced to \$4.3 million in the August 2002 special session, no new dollars have been allocated for this fund since then.

During the 2003 legislative session, SB424 raised entitlements by 1.1 percent in FY 2004 and by 2.1 percent in FY 2005. In addition, entitlements were tied to inflation increases beginning in FY 2006. The inflation factors for FY 2006 and FY 2007 are 2.1 percent and 2.19 percent respectively. The inflation adjustment may be no larger than 3 percent.

In June 2004, District Court Judge Sherlock declared the current system of K-12 funding unconstitutional, stating it was not based on "educationally relevant factors". The decision also concluded that K-12 education is under-funded. The decision was upheld by the

Montana Supreme Court in November 2004. The state was given a deadline of October 2005 to comply with the court findings. The 2005 Legislature developed a definition of a quality system of elementary and secondary schools. An interim committee attempted to create a new funding system that would agree with that definition.

In the December 2005 special session, the legislature created four new funding payments for implementation in FY 2007 and added both on-going and one-time spending increases to reflect the revised methodology.

The current system of school finance was established in HB 667, passed by the 1993 legislature and first applied to school funding in FY 1994. HB 667 created a system of funding schools in which the state mandates the limits within which a school district may budget its general fund expenditures. The maximum and BASE budgets are related by a formula in statute to Average Number Belonging (ANB), which is enrollment in the prior year adjusted by teacher days. The maximum budget is the sum of the district's basic per-district entitlement, its per-ANB entitlement, and up to 200 percent of its special education allowable costs. The BASE (or minimum) budget for a district is the sum of 80 percent of the district's basic per-district entitlement, 80 percent of its per-ANB entitlement, and up to 140 percent of its special education allowable costs. In the special session in December 2005, four new payments were added to the BASE budget; 1) a per educator payment; 2) an at risk payment; 3) a close the American Indian achievement gap payment; and 4) an Indian education for all payment. See Funding the General Fund Budget below for an explanation of how these payments are calculated.

HB 667 allowed schools that had been budgeting above the newly created maximum budget in the past to continue budgeting at that level indefinitely. Subsequently, this grandfather clause was altered in HB 22 (1993 special session), which required district voters to approve any budget authority above the maximum budget.

In FY 1994 when the new system was first implemented, many schools had general fund budgets that were below the BASE budget. Districts with budgets below the BASE budget were required to incrementally increase budget authority and budget at the BASE level by FY 1998.

ANB AND MAXIMUM AND BASE BUDGETS

The maximum and BASE budgets are related by a formula in statute to ANB (which is enrollment in the prior year adjusted by teacher days). Districts may choose to use the current year's ANB or a three year average of ANB when building their budgets. ANB is also related to the time a child spends in school. Law allows for quarter time, half time and three-quarter time ANB. Full-time kindergarten, enacted for the first time in FY 2008, added approximately 5,000 new ANB since under that initiative children in full-time kindergarten are now counted as a full ANB.

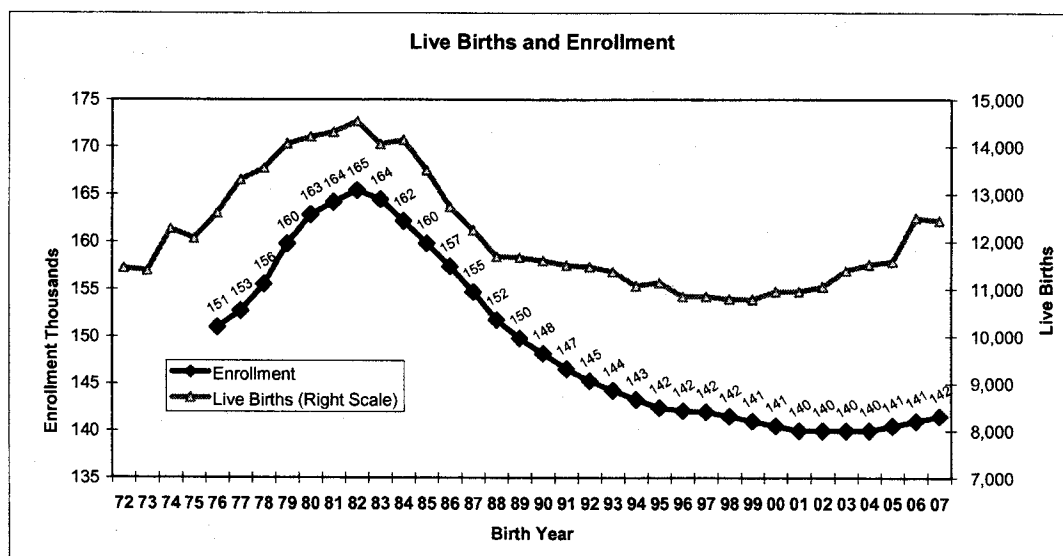
ENROLLMENT

As shown in Figure 4, enrollment peaked in FY 1996 and has been declining since, mainly as a result of falling birth rates in the mid 1980's through the late 1990's. As of

2001, births have increased every year, and enrollment declines are expected to cease sometime in the next decade.

Between FY 1997, when enrollment was at its peak, and FY 2008, enrollment fell 13.4 percent. During the period, elementary enrollment fell 16.7 percent and high school enrollment fell 5.6 percent. In FY 2008 there were 22,108 fewer students served than in FY 1996. During the same period, basic entitlements were increased by the legislature 23.9 percent for both elementary and high school districts. Elementary per-ANB entitlements were increased 37.0 percent and high school per-ANB entitlements were increased by 25.2 percent, although the majority of this increase has come in recent years. Between FY 1997 and FY 2008, the most severe declines in ANB occurred in the elementary grades. The most severe declines in the future will be in the middle school and high school grades.

Figure 4



INFLATION

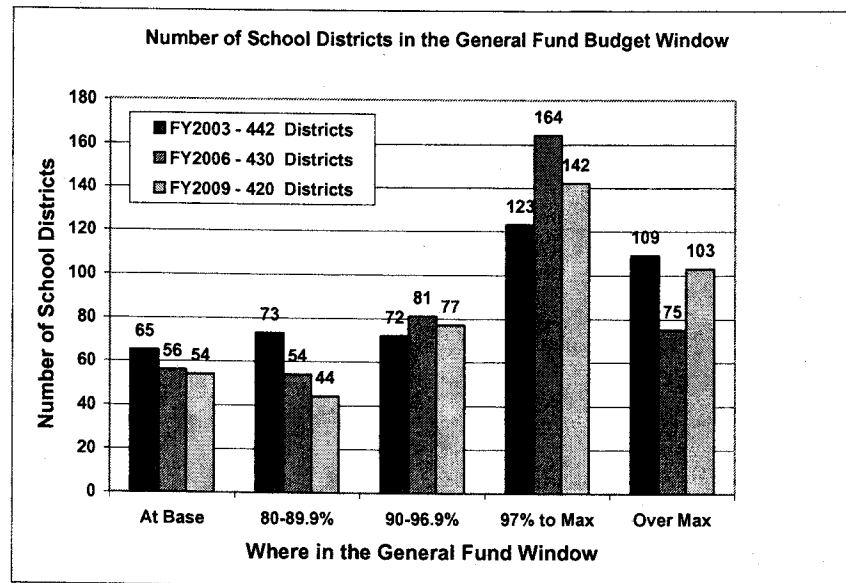
As stated, maximum and BASE budgets are based on percentage of per district and per ANB entitlements and special education. Beginning in FY 2006, both the per district and per-ANB entitlements are adjusted by the rate of inflation. The rate of inflation used is the Consumer Price Index – Urban Consumers as published by the US Department of Labor. The rate is calculated as a three-year average lagged three years.

DISTRIBUTION

Figure 5 shows the distribution of districts in the general fund budget window in FY 2003, FY 2006, and FY 2009 for all districts. The adopted general fund budget for each district is divided by the maximum budget for each year. The number of districts in each of the brackets is then counted. The number of districts budgeting at the BASE level and below 90 percent has declined significantly. Many districts facing declining enrollments found

their maximum and BASE budgets falling while they attempted to maintain their actual adopted budgets.

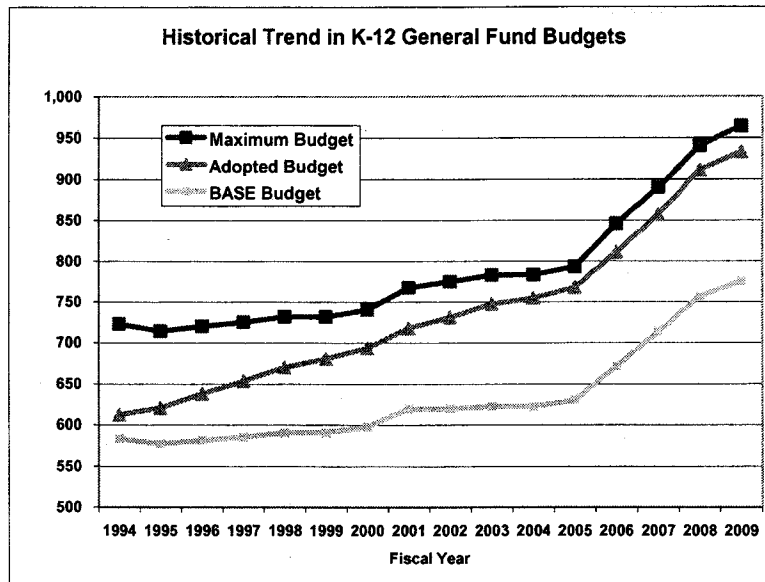
Figure 5



The number of districts budgeting above 90 percent and below the maximum budget has not changed much, however, the number of districts budgeting above the maximum budget has grown substantially. As of FY 2008, districts may budget above their maximum budgets indefinitely with voter approval. The rule is that a district may choose to budget at the higher of last year's actual budget or this year's maximum budget. Prior to FY 2008, a district could only budget above their maximum budget for 5 years.

As shown in Figure 6, the average general fund budget, as a percent of the average maximum budget in FY 1994, was about 84.0 percent. This has risen to 96.8 percent in FY 2009, primarily as a result of reduced ANB, which was more than offset by legislated entitlement increases and voter approved increases in general fund budgets.

Figure 6



FUNDING THE GENERAL FUND BUDGET

As shown in Figure 7, districts' general fund budgets are funded by state and local funds. State funds consist of the four new payments, direct state aid, state guaranteed tax base (GTB), state special education grants and state HB 124 block grants. The sources of local funding are nonlevy revenue (oil, natural gas, coal receipts and investment interest), property taxes, and reappropriated fund balances.

As stated, during the December 2005 special session the legislature created four new payments, each of which is paid 100 percent from the state general fund. The quality educator payment is \$2,000 per licensed educator (including teachers and administrators and specialized staff) in the previous school year in each district. The amount in FY 2009 is \$37.8 million for 12,412 FTE.

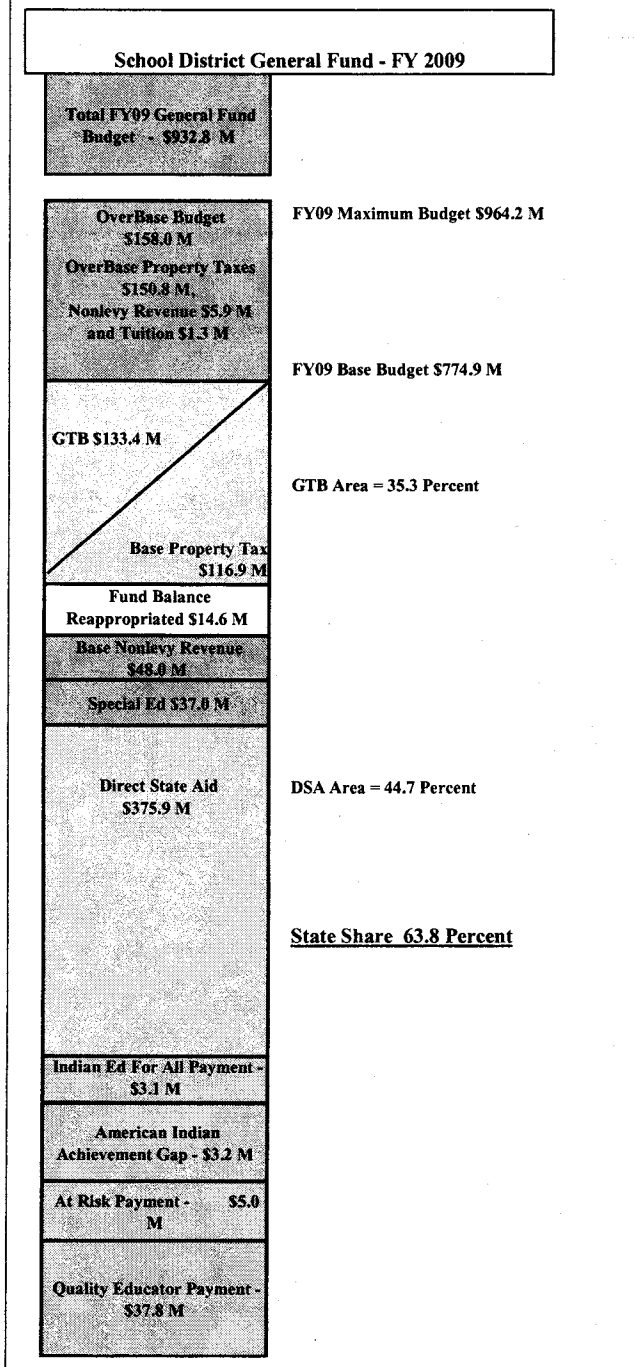
The at-risk payment must be distributed to public school districts by the Office of Public Instruction in the same manner that the Office of Public Instruction allocates the funds received under the federal Title 1 statute, which distributes money to disadvantaged children defined by the income of their parents. The amount for FY 2009 is \$5 million.

The American Indian Achievement Gap payment is \$200 per American Indian student enrolled in the district based on the count of regularly enrolled students on the first Monday in October of the prior school year. In FY 2009, this payment is \$3.2 million spread over 16,234 American Indian students in 265 out of 420 districts.

The Indian Education for all payment is \$20.40 per ANB, or \$100 per district, whichever is greater. For FY 2009, it is \$3.1 million.

Direct state aid is a grant from the state to the district. In FY 2009, direct state aid is 44.7 percent of the - basic and per-ANB entitlements used to calculate the maximum budget. The direct state aid percent was 40.0 percent until FY 2000 when it was raised to 41.1 percent. The current level of 44.7 percent was instituted during the May 2000 special session for FY 2001. Because it

Figure 7



is directly related to entitlements, the geographic distribution of direct state aid is directly related to where children live.

The portion of the budget above the level funded by direct state aid and below the BASE budget is called the GTB budget area. This is partially funded by a combination of special education revenue from the state, state HB 124 block grants, nonlevy revenue, and fund balance reappropriated. The remaining area of the GTB budget area is funded with state GTB aid and property taxes.

Special education revenue (\$37.0 million in FY 2009) reimburses districts for allowable costs associated with special needs children. Nonlevy revenues are revenues from taxes on oil, natural gas, coal, investment earnings and state HB 124 block grants. Nonlevy revenues totaled \$60.2 million in FY 2009. These revenues are distributed based on where the revenue was earned and are unrelated to the number of children in a district.

Beginning in FY 2002, HB 124 block grants are payments made by the state to districts to reimburse districts for revenue that now flows to the state. These revenues were motor vehicle taxes, taxes on financial institutions, and reimbursements from the state for legislated reductions in districts' business equipment property tax base in prior sessions. While HB 124 block grants are state appropriations to schools, they do not represent an infusion of new state money into district budgets, but rather replace money that used to be considered local revenue. To the extent these monies were reimbursements for property tax cuts in previous sessions, HB 124 block grants are highly dis-equalizing since the money flows where this property used to be and not where the children are today. HB 124 block grants make up \$44.6 million in the district general fund in FY 2009. Approximately another \$6 million flows to other district and county funds.

Reappropriated fund balances are unreserved general fund balances left over from the previous year (approximately \$14.6 million in FY 2009). A district may hold in reserve at most an amount equal to 10.0 percent of its general fund budget, and must reappropriate the rest in the ensuing year. When districts under-predict current year revenues, fund balances reappropriated in the following year go up, and vice versa.

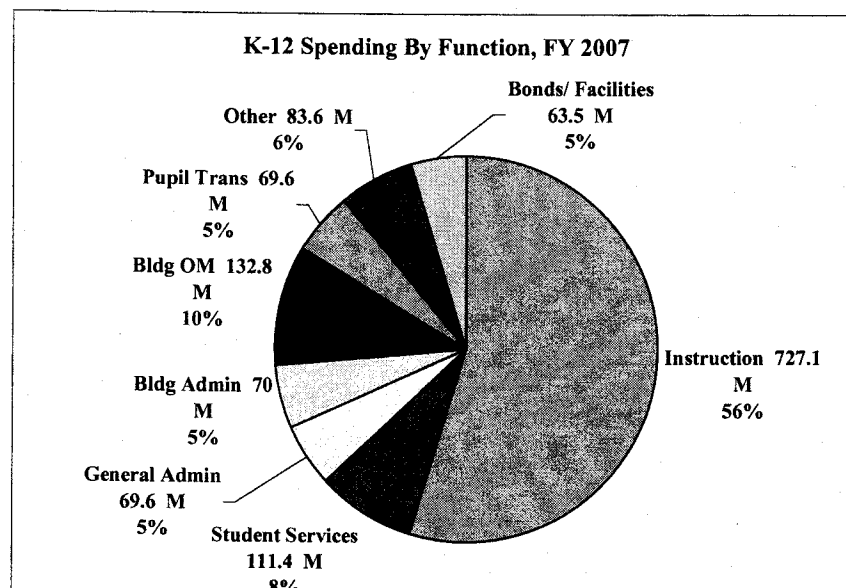
The remaining portion of the GTB area is funded with BASE property taxes (\$116.9 million in FY 2009) and state GTB aid (\$133.4 million in FY 2009). The amount of GTB aid a district receives depends on its relative wealth, as measured by the taxable value per dollar of BASE budget. A relatively poor district's BASE mill levy generates local property taxes and a certain amount of GTB aid. The poorer the district, the more a BASE mill will be worth in terms of GTB aid. Statewide, the average ratio of GTB aid to BASE property tax revenue is a little less than one. This may vary from zero for wealthy districts to over ten for poor districts. The state may also increase GTB aid by increasing the statewide guarantee ratio which increases the state GTB subsidy. This was done in the 2007 special session for FY 2008 and beyond. The guarantee ratio was raised to 193 percent from 175 percent. This in effect raised the subsidy for each GTB-eligible district and made more districts eligible for GTB aid. This change added around \$10 million in state cost and reduced local property taxes by the same amount.

Districts that budget above the BASE level must do so out of own-source revenue and tuition from other districts, parents, or the state. Some districts are able to use nonlevy revenue to fund a portion of this budget area, but the vast majority levy over-BASE mills against property. Over-BASE property taxes are \$150.8 million in FY 2009, and are a growing source of revenue for district general fund budgets. Over-Base property taxes were only \$34.8 million in FY 1994.

DISTRICT GENERAL FUND SPENDING BY FUNCTION

Figure 8 spending by school districts by function. Instruction consumes approximately 56 percent of all spending by districts. Administration accounts for another 10.0 percent. The remaining functions include transportation, student services, spending on facilities, and other expenses. This data does not include spending from the adult education fund, the building fund, trust funds, and enterprise funds.

Figure 8



SPECIAL EDUCATION

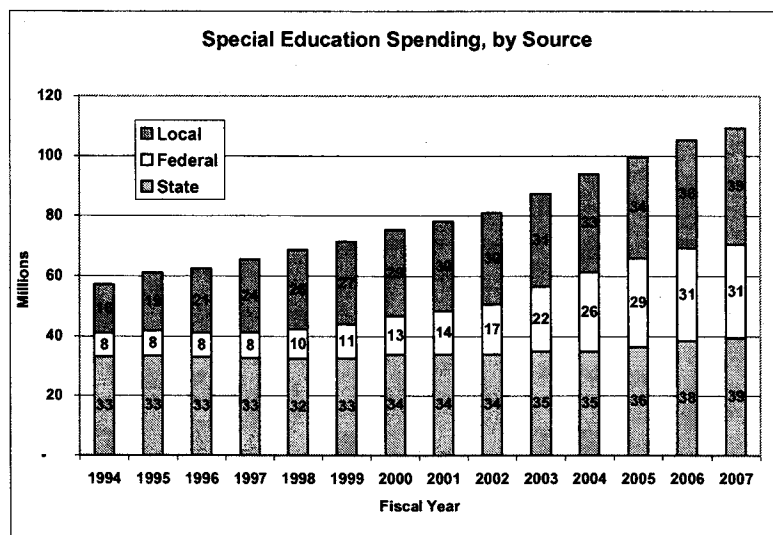
The state will pay approximately \$41.6 million in FY 2009 in special education grants and reimbursements to districts and special education cooperatives. Special education cooperatives are groups of districts offering special education services. Districts and co-ops receive about 89 percent of this money in their general funds and spend it for services to children with various disabilities or impairments. The remainder (11 percent) is used for co-op travel and administration for those districts that use co-ops to deliver their special education services. The disabilities range from speech-language impairments and physical impairments to multiple disabilities.

In FY 2007, there were 18,557 students identified as special education children, 12.8 percent of all children in public schools. In FY 2007, districts and coops spent \$78.1 million in state and local contributions and \$31.1 million in federal contributions on the allowable costs associated with the education of impaired students. Allowable costs are defined by the state, which provides grants for special education instruction and related services (70 percent), which are based on enrollment. State reimbursements (25 percent) are made to schools with extraordinary special education costs. As costs have risen, the amount of reimbursements has also risen. Special education coops travel and administration account for the remaining 5 percent of the state costs associated with special education.

For every \$3 the state spends in special education block grants, the local district must contribute \$1. A district that is a cooperative member is required to provide the 25 percent match of the special education-related services grant amount to the special education cooperative.

The proportion of the total state appropriation distributed in the form of reimbursement for disproportionate costs grew both in total dollars and in the number of districts receiving reimbursement for disproportionate costs through FY 2001. The funding for disproportionate reimbursement was revised in FY 2002 to hold constant the proportion of funds distributed under reimbursement for disproportionate costs and shift funding back to instructional and related services block grants. Today, any increase in funds distributed for purposes of reimbursement of disproportionate costs is due to an increase in overall appropriations for special education.

Figure 9



The state special education grants and reimbursements flow to district general fund and are incorporated in calculating a district's maximum and BASE general fund budget limits. For each dollar increase in district receipts of state special education dollars, the maximum budget of the district increases by \$2.00 and the BASE budget increases by \$1.40. Increases in special education receipts by district also increase the state GTB aid paid to a district, since GTB aid depends on the level of the BASE budget.

Special education students were about 12.8 percent of the student population in FY 2007. Enrollments of special education students grew by close to 2 percent per year between FY 1991 and FY 1994, but growth through FY 2005 was less than 1 percent. Since FY 2005 growth in special education students has been negative.

A new state funding system was put in place in FY 1994 that granted districts state special education dollars based on the number of ANB in the entire district. The old system had granted such dollars based on the number of identified special education students in each district.

The amount the state appropriates in special education grants to districts and cooperatives remained between \$32.0 and \$33.0 million between FY 1989 and 1999, but has risen to \$41.5 million in FY 2009. Districts and co-ops spent \$57.1 million in FY 1994 for special education programs and \$109.3 million in FY 2007, an annual growth rate of 5.1 percent per year. The state share of these costs has fallen commensurately and the local share of special education costs has risen from \$16.2 million in FY 1994 to \$38.8 million in FY 2007.

Districts spend more on special education students than regular students. Spending for special education students was 164 percent of spending for regular students in FY 2007.

VOTING RULES

Many of the decisions regarding the level and funding of general fund budgets must, by law, be referred to district voters. Beginning in FY 2001, the general fund voting provisions for districts adopting a general fund budget between the BASE and the maximum budget limits were amended to require voter approval for an increase in over-BASE property tax revenue. Previous law had required a vote in order to increase ensuing year budgets above current year budgets regardless of the property tax revenue consequences. Under the new law, if an increase in budget authority can be funded without increasing over-BASE property taxes revenue, the budget increase does not require voter approval. A 4 percent limitation on annual budget growth, or on annual budget growth per ANB, was in effect until July 1, 2001. HB 164, passed during the 2001 legislative session, eliminated the growth cap and districts may now increase their general fund budget by any amount up to the maximum with voter approval.

The 2007 legislature eliminated some very complex rules on voting requirements that had been in place since 2000. Beginning in FY 2008, A district may choose to budget at the higher of last year's actual adopted budget or this year's maximum budget. If the choice results in an increase in over-BASE property tax revenue, then the excess year over year property tax revenue must be voted on.

Districts that have general fund budgets exceeding the maximum budget must annually ask voters to approve the part of the budget in excess of the maximum. If a district's budget in the current year is below the BASE budget in the upcoming year, either due to ANB increases or legislated increases in entitlements, district trustees must increase the budget to the BASE budget level and no voter approval is required.

Effective in FY 2000, the regular school and trustee election date is changed to the first Tuesday after the first Monday in May. Only one levy election may be held in a calendar quarter.

For budgets other than the general fund, both at the district level and the retirement and transportation budgets at the county level may be increased at the discretion of the trustees of the district or the county superintendent without going to the voters.

DISTRICT TRANSPORTATION BUDGET

Montana law provides for two types of public school transportation - a publicly funded home to school bus program and/or individual transportation contracts with a student's parents or guardian. School bus transportation may be provided directly by the school district, or the trustees of a district may contract with a private contractor to provide bus transportation for eligible students.

The trustees of a district may provide school bus transportation to any pupil of a public or private school. However, the district will receive reimbursement from the state and county only for eligible transportees. An eligible transportee must:

- Be a resident of the State of Montana and attend a public school in Montana
- Be between the ages of 5 and 21 or be a preschool child with disabilities between the ages of 3 and 6
- Reside at least 3 miles from the nearest operating public elementary school or high school
- Be considered to reside with his or her parent or guardian, who maintains legal residence within the boundaries of the district furnishing the transportation, regardless of where the eligible transportee lives when attending school

The trustees of a district are not required by law to provide pupil transportation unless directed to do so by the county transportation committee. However, if the trustees decide to furnish transportation for any eligible transportee, they must ensure transportation for all eligible transportees. In addition, trustees may direct that children within three miles of a school be transported. However, in doing so the district will not be reimbursed by the state.

ON-SCHEDULE COSTS

A district's transportation budget is funded by receipt of state reimbursements for on-schedule costs, an amount that is matched by the county, and by district revenues, which fund "over-schedule" costs.

On-schedule costs are defined by the legislature and are expressed on a per mile basis. The per mile schedule costs depend on the size of the bus. Before FY 2004 these costs were adjusted depending on the extent that the bus is filled with riders. On-schedule costs are determined as the product of the per mile amount times miles traveled times 180 days. The state general fund reimbursement is one-half this amount or one-half the amount a district budgets for transportation, whichever is less. The county must match the state

reimbursement amount with funds derived from the county school transportation fund. County revenues in the county transportation fund include non-levy revenue and property tax revenues.

District over-schedule costs are the difference between the transportation fund budgeted amount and state and county on-schedule reimbursements. Some districts are able to provide transportation services for the on-schedule amount, but the vast majority of districts incur costs above the on-schedule amount. On-schedule costs vary between 95 cents per mile per day and \$1.80 per mile per day with larger buses receiving the larger reimbursement. Larger districts generally have higher per mile costs than small districts. Small districts have generally higher costs per ANB, and per ANB per mile, than do large districts.

Districts fund the over-schedule amount through a combination of non-levy revenues and district property taxes. District trustees may budget the over-schedule amount at their discretion and are not required to ask voters to approve that level. For on-schedule costs, the county superintendent determines the property tax requirements, and the county commissioners set the required levy.

In FY 2007, total district spending on transportation was \$61.1 million. On schedule costs were \$24.8 million, of which half was paid by the county and half by the state.

Some districts budget for transportation but do not engage in providing transportation. These districts do not own buses and do not contract with a private bus company. In many cases, these districts coordinate their transportation needs with a nearby district. For instance, many elementary districts coordinate with their high school district, if the high school is in the same community.

Approximately one-third of the bus routes in Montana are contracted with private bus companies. These contracts are usually observed in the larger districts. Some small districts, however, also contract and may contract with many private individuals to provide bus service. Contracts in the larger districts are often multi-year, and some provide inflation adjustments and/or gas price adjustments. The contracts are usually on a per mile basis or on a yearly basis for a set number of miles per day. The bus company usually must provide specially equipped buses and bus aides if necessary.

School districts may also contract with parents or guardians of pupils in need of transportation. Under section 20-10-142, MCA, the state and county must reimburse a district that makes a contract with a parent or guardian for transportation of eligible transportees at a minimum rate of 35 cents per mile per day. The district may contract with a parent at a higher rate, and in fact federal rules regarding transportation of special needs students require that parents be reimbursed by the district at 29 cents per mile. Allowable miles are determined by multiplying the distance between the eligible transportee's residence and school, minus 6 miles. The total reimbursement is limited to one round trip per day. Districts with parents who transport their children to the nearest bus stop on an approved route are also reimbursed 35 cents per mile per day, with 3 miles deducted from the distance between the home and the bus stop.

RETIREMENT FUND

School districts employing personnel who are members of the teachers retirement system or other defined retirement systems must establish retirement funds from which to pay the districts' contributions to the systems. The amount each district must pay into the retirement fund is set by statute and is a set percentage of the employee's annual wage, and includes payments to the retirement system, social security, Medicare and unemployment insurance. Thus the spending requirements in the retirement fund increase with increases in wages and in the number of employees. Also, because teacher wages are paid from the district general fund, the level of spending in the retirement fund is closely related to the level of spending in the general fund. Retirement costs associated with salaries in other state and federal funds are also paid for out of the district retirement fund. Districts may hold up to 35 percent of the final retirement budget in reserve, and any money above that must be reappropriated in the ensuing budget year.

The retirement fund is managed at the county level. The county collects the money and deposits it in district retirement accounts. The district then pays for the retirement contributions. The county retirement fund is funded by nonlevy revenue, state GTB, and local property taxes. A county is eligible for GTB if its taxable value per ANB is less than 121.0 percent of the state average taxable value per ANB. The amount of state GTB varies inversely with the value of a county's taxable property per ANB. Thus, less wealthy counties receive more GTB aid than do relatively more wealthy counties.

The retirement fund has been a nonvoted fund. That is, the county superintendent determines the amount of the levy, and the county commissioners fix and set the levy without putting the issue before the voters.

The total payment to districts by counties in FY 2007 was \$103.0 million. The state GTB payment to counties for retirement purposes was \$22.3 million in FY 2007.

Beginning in FY 2005, retirement costs for federal employees (except those paid for with Indian Impact aid) must be paid out of federal funds, not state or local funds, with exceptions for employees funded by a special education cooperative inter-local fund, the districts' food services fund, and any other state or local fund.

SPENDING HISTORY

Figure 10 shows the spending history by school districts between FY 1991 and FY 2007, by source of spending. The sources are state, federal and local.

Figure 10 Historical K-12 Spending Data, by Source of Spending Profile Data - 1991-2007								
Fiscal Year	Equalized State Spending	Nonequalized State Reimbursements	Total State Funding	Local	Federal	Total School Spending	State Share	CPI-U Jul-Jun Inflation
1991	\$410,068,339	\$6,194,034	\$416,262,373	\$261,244,899	\$62,292,449	\$739,799,721	56.3%	133.92
1992	410,683,944	6,194,034	416,877,978	288,276,952	67,504,393	772,659,324	54.0%	138.21
1993	449,284,428	6,194,034	455,478,462	280,496,495	71,248,888	807,223,844	56.4%	142.53
1994	449,022,117	6,194,034	455,216,151	316,568,353	78,593,987	850,378,491	53.5%	146.22
1995	454,407,079	6,194,035	460,601,114	322,033,178	82,291,327	864,925,619	53.3%	150.41
1996	456,761,270	14,107,524	470,868,794	331,652,997	85,761,667	888,283,458	53.0%	154.50
1997	461,430,512	14,107,524	475,538,036	356,982,459	87,510,909	920,031,404	51.7%	158.91
1998	475,819,055	14,107,524	489,926,579	363,980,491	98,565,659	952,472,728	51.4%	161.74
1999	463,136,715	14,107,524	477,244,239	392,463,959	106,952,451	976,660,649	48.9%	164.54
2000	478,973,310	19,716,889	498,690,199	380,507,204	124,778,384	1,003,975,788	49.7%	169.29
2001	504,920,062	43,932,391	548,852,453	386,035,173	123,577,327	1,058,464,953	51.9%	175.09
2002	489,205,888	77,646,820	566,852,708	385,032,759	143,671,140	1,095,556,607	51.7%	178.19
2003	504,044,202	71,967,152	576,011,354	407,450,946	163,400,823	1,146,863,124	50.2%	182.11
2004	508,181,340	56,298,948	564,480,288	439,560,383	176,465,571	1,180,506,242	47.8%	186.09
2005	514,843,803	55,306,755	570,150,558	458,657,444	177,067,526	1,205,875,528	47.3%	191.69
2006	556,949,606	54,317,419	611,267,025	484,045,070	175,080,235	1,270,392,329	48.1%	198.99
2007	615,204,696	53,330,961	668,535,657	484,653,994	174,602,559	1,327,792,210	50.3%	204.14
Annual Growth	2.6%	14.4%	3.0%	3.9%	6.7%	3.7%		2.7%
Nonequalized State Reimbursements are: HB124 Block Grants (2001 session), HB 20 reimb (1989 session) and SB417 Reimbursements (1995 session)								
Nonequalized because money does not follow students, but rather goes to jurisdictions where property was before reimbursements for tax reductions were instituted.								

School District Entitlements

Component	FY1994 Actual	FY95-97 Actual	FY1998 Actual	FY1999 Actual	FY2000 Actual	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual
Bill Authorizing Entitlement Change	HB667	HB22	HB47	HB47	SB100	HB4	HB121	HB121	SB424	SB424	HB63	HB63	SB1 (SS)	SB1 (SS)
Basic (Per District) Entitlements														
Elementary	\$18,000	\$17,190	\$18,000	\$18,000	\$18,000	\$18,540	\$18,889	\$19,244	\$19,456	\$19,859	\$20,275	\$20,718	\$21,290	\$21,922
Percent Change	-4.5%	4.7%	0.0%	0.0%	0.0%	3.0%	1.9%	1.9%	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%
High School	\$200,000	\$191,000	\$200,000	\$200,000	\$200,000	\$206,000	\$209,873	\$213,819	\$216,171	\$220,646	\$225,273	\$230,199	\$236,552	\$243,649
Percent Change	-4.5%	4.7%	0.0%	0.0%	0.0%	3.0%	1.9%	1.9%	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%
Middle School														
Percent Change														
Weighted Average of Elementary and High School Basic Entitlements														
Per ANB Entitlements														
Elementary	\$3,500	\$3,343	\$3,376	\$3,410	\$3,529	\$3,763	\$3,834	\$3,906	\$3,949	\$4,031	\$4,366	\$4,456	\$4,579	\$4,716
Percent Change	-4.5%	1.0%	1.0%	3.5%	6.6%	1.9%	1.9%	1.9%	1.1%	2.1%	8.3%	2.1%	2.8%	3.0%
High School	\$4,900	\$4,680	\$4,726	\$4,773	\$4,821	\$5,015	\$5,109	\$5,205	\$5,262	\$5,371	\$5,584	\$5,704	\$5,861	\$6,037
Percent Change	-4.5%	1.0%	1.0%	1.0%	1.0%	4.0%	1.9%	1.9%	1.1%	2.1%	4.0%	2.1%	2.8%	3.0%
Inflation (CPI-U)	2.6%	2.8%	1.8%	1.7%	2.9%	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%	2.6%	3.7%	NA
Per ANB Decrements														
Elementary	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
High School	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50
Per ANB Decrement Stop Loss														
Elementary	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
High School	800	800	800	800	800	800	800	800	800	800	800	800	800	800
Quality Educator Payment														
At Risk Payment														
Indian Ed For All Payment														
Indian Achievement Gap Payment														
GTB Guarantee Ratio	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%	193%	193%
Base Budget Components														
Direct State Aid	40.0%	40.0%	40.0%	40.0%	41.1%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Guaranteed tax base aid	40.0%	40.0%	40.0%	40.0%	38.9%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Special Ed (Millions)	\$28.5	\$28.9	\$28.5	\$28.7	\$30.0	\$33.5	\$33.9	\$34.9	\$34.9	\$36.4	\$38.5	\$39.3	\$40.4	\$41.6

Bill and session year: SB 100, 1999; HB 4, May SS, 2000; HB121, 2001; SB424, 2003; HB 63, 2005; HB1, 2005 SS; SB1 2007SS

Bill and session year: HB 667, 1993; HB 22, Nov SS, 1993; HB 47, 1997; SB 100, 1999; HB 4, May SS, 2000; HB121, 2001; SB424, 2003; HB 63, 2005; SB1 2007SS

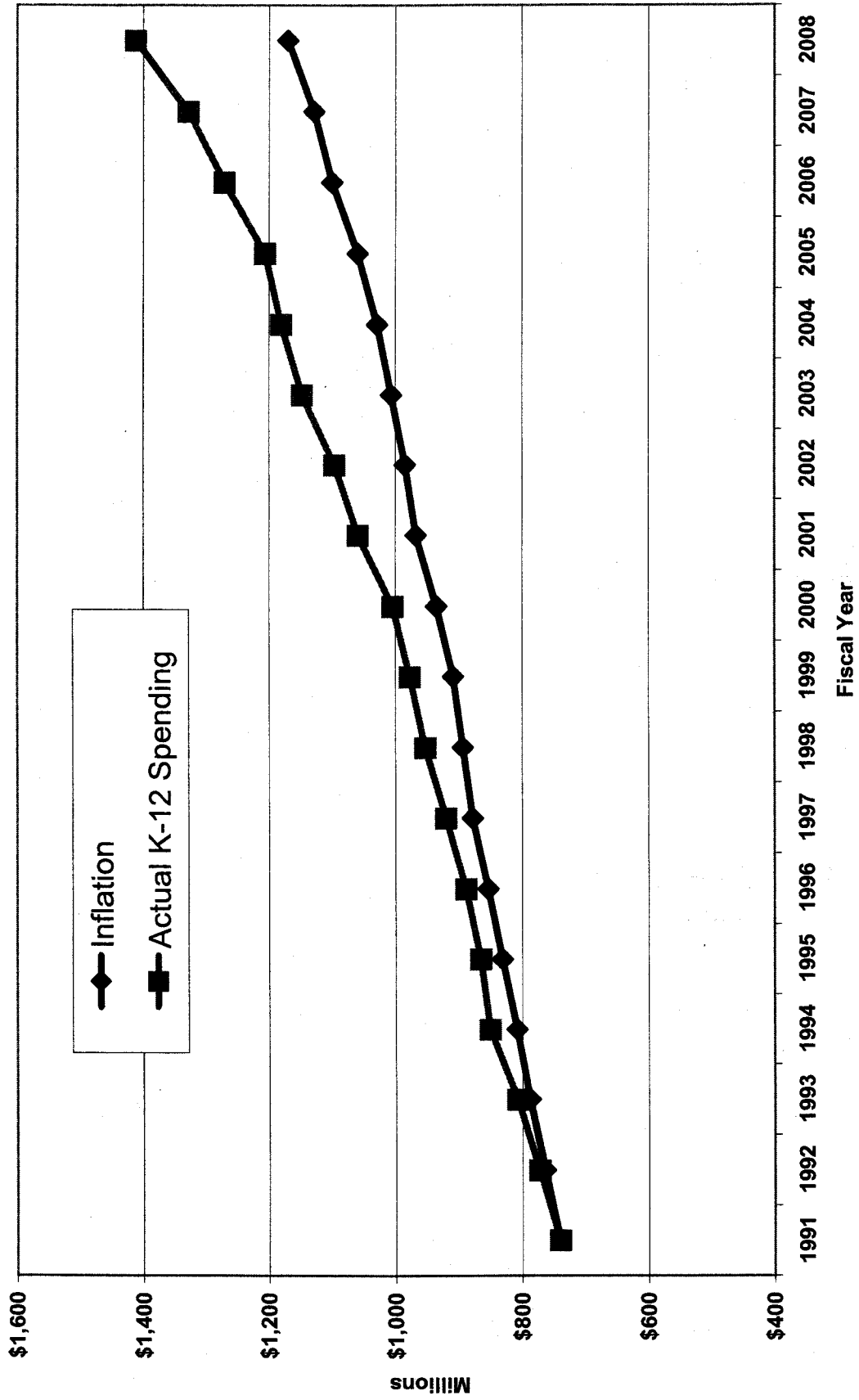
Historical K-12 Spending Data, by Source of Spending Profile Data - 1991-2008

CPI-U Jul-Jun											
Fiscal Year	Equalized State		Nonequalized State		Total State		Total School		State Share	Inflation Jun	Enrollment
	Spending	Reimbursements	Funding	Local	Federal	Spending					
1991	410,068,339	6,194,034	416,262,373	261,244,899	62,292,449	739,799,721	56.3%	133.92	152,702		
1992	410,683,944	6,194,034	416,877,978	288,276,952	67,504,393	772,659,324	54.0%	138.21	155,522		
1993	449,284,428	6,194,034	455,478,462	280,496,495	71,248,888	807,223,844	56.4%	142.53	159,793		
1994	449,022,117	6,194,034	455,216,151	316,568,353	78,593,987	850,378,491	53.5%	146.22	162,825		
1995	454,407,079	6,194,035	460,601,114	322,033,178	82,291,327	864,925,619	53.3%	150.41	164,147		
1996	456,761,270	14,107,524	470,868,794	331,652,997	85,761,667	888,283,458	53.0%	154.50	165,390		
1997	461,430,512	14,107,524	475,538,036	356,982,459	87,510,909	920,031,404	51.7%	158.91	164,418		
1998	475,819,055	14,107,524	489,926,579	363,980,491	98,565,659	952,472,728	51.4%	161.74	162,164		
1999	463,136,715	14,107,524	477,244,239	392,463,959	106,952,451	976,660,649	48.9%	164.54	159,813		
2000	478,973,310	19,716,889	498,690,199	380,507,204	124,778,384	1,003,975,788	49.7%	169.29	157,381		
2001	504,920,062	43,932,391	548,852,453	386,035,173	123,577,327	1,058,464,953	51.9%	175.09	154,700		
2002	489,205,888	77,646,820	566,852,708	385,032,759	143,671,140	1,095,556,607	51.7%	178.19	151,751		
2003	504,044,202	71,967,152	576,011,354	407,450,946	163,400,823	1,146,863,124	50.2%	182.11	149,801		
2004	508,181,340	56,298,948	564,480,288	439,560,383	176,465,571	1,180,506,242	47.8%	186.09	148,168		
2005	514,843,803	55,306,755	570,150,558	458,657,444	177,067,526	1,205,875,528	47.3%	191.69	146,552		
2006	556,949,606	54,317,419	611,267,025	484,045,070	175,080,235	1,270,392,329	48.1%	198.99	145,259		
2007	615,204,696	53,330,961	668,535,657	484,653,994	174,602,559	1,327,792,210	50.3%	204.14	144,258		
2008	680,867,858	52,347,404	733,215,262	506,575,120	172,184,564	1,411,974,945	51.9%	211.70	143,282		
Annual Gr	3.0%	13.4%	3.4%	4.0%	6.2%	3.9%	-0.5%	2.7%	-0.4%		
Cumulative Gr	66.0%	745.1%	76.1%	93.9%	176.4%	90.9%	-7.7%	58.1%	-6.2%		

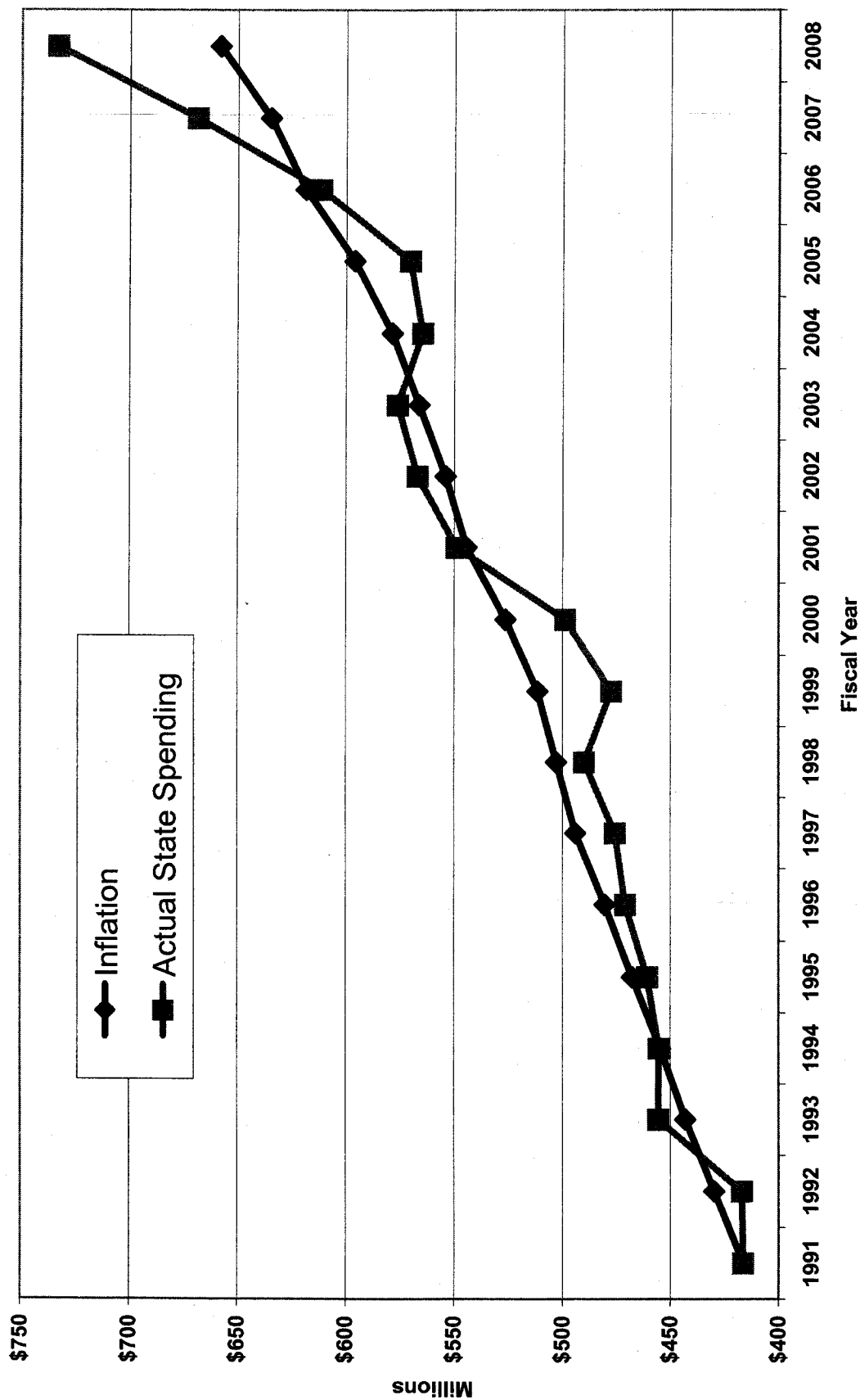
Nonequalized State Reimbursements are: HB124 Block Grants (2001 session), HB 20 reimb (1989 session) and SB417 Reimbursements (1995 session)
Nonequalized because does not follow kids, but rather goes to jurisdictions where property was before reimbursements for tax reductions were instituted.

District Spending	
864,925,619	
888,283,458	
920,031,404	
952,472,728	
976,660,649	
1,003,975,788	
1,058,464,953	
1,095,556,607	
1,146,863,124	
1,180,506,242	
1,205,875,528	
1,270,392,329	
1,327,792,210	
1,411,974,945	

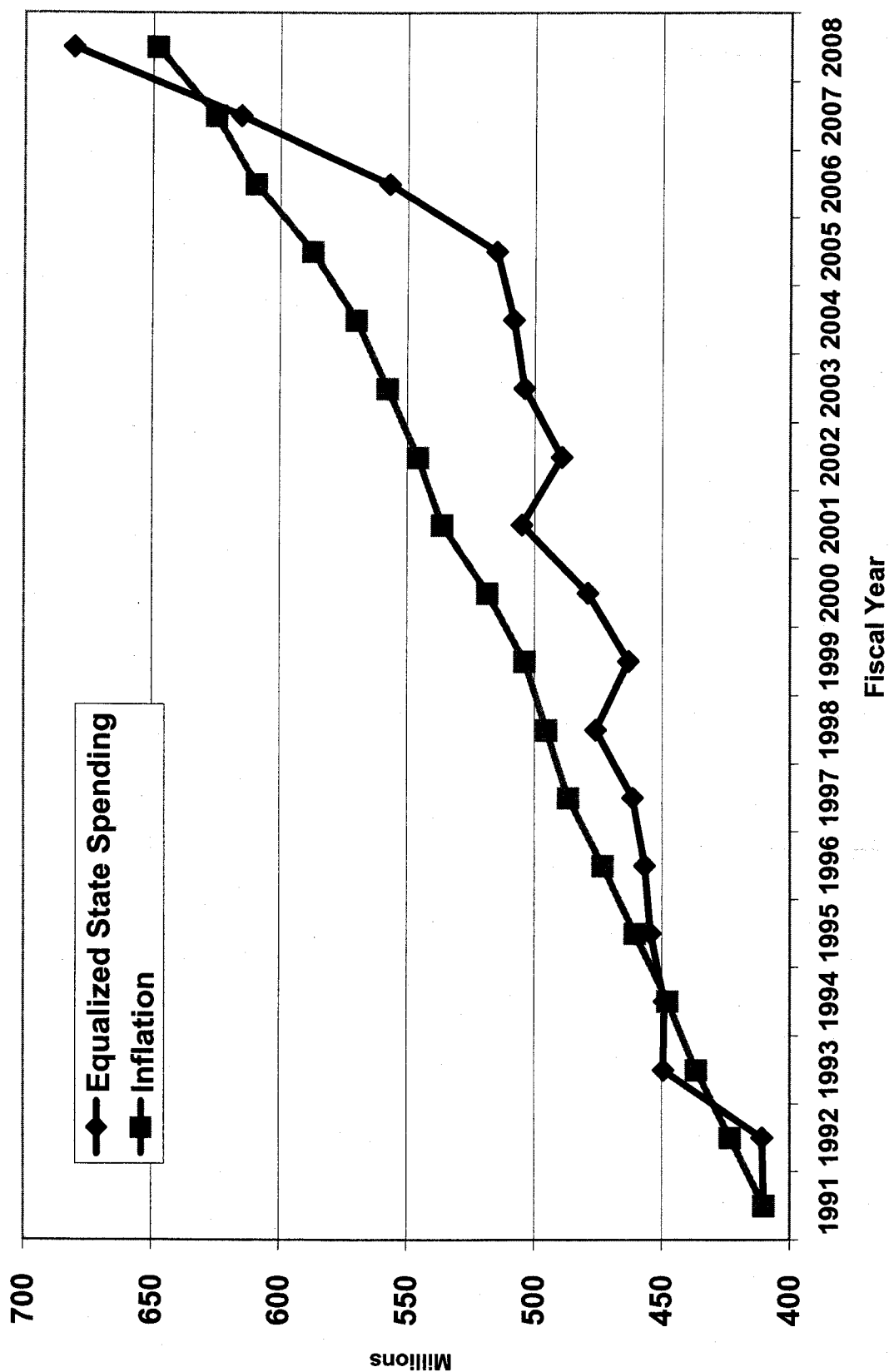
Spending for K-12 - All Sources



State Funding for K-12



Equalized State Spending on K-12 Compared With Inflation



School District General Fund - FY 2009

**Total FY09 General Fund
Budget - \$932.8 M**

**OverBase Budget
\$158.0 M**
**OverBase Property Taxes
\$150.8 M,**
**Nonlevy Revenue \$5.9 M and
Tuition \$1.3 M**

FY09 Maximum Budget \$964.2 M

FY09 Base Budget \$774.9 M

GTB \$133.4 M

GTB Area = 35.3 Percent

**Base Property Tax
\$116.9 M**

**Fund Balance
Reappropriated \$14.6 M**

**Base Nonlevy Revenue
\$48.0 M**

Special Ed \$37.0 M

**Direct State Aid
\$375.9 M**

DSA Area = 44.7 Percent

State Share 63.8 Percent

**Indian Ed For All Payment -
\$3.1 M**

**American Indian
Achievement Gap - \$3.2 M**

**At Risk Payment - \$5.0
M**

**Quality Educator Payment -
\$37.8 M**

Impact of Losing Students on Property Taxes
No Growth in Budget, But Property Taxes Increase
Significantly

<div> <div>\$4,100,000</div> <div> <div>\$16,300,000</div> <div>State</div> </div> <div> <div>BASE Taxes</div> <div>\$7,193,000</div> </div> </div> <div> <div>taxes = 11,293,000</div> <div> <div>Year 1</div> <hr/> <div>5,000 Students</div> </div> </div>	<div> <div>\$4,500,000</div> <div> <div>\$15,900,000</div> <div>State</div> </div> <div> <div>BASE Taxes</div> <div>\$7,017,000</div> </div> </div> <div> <div>Taxes = 11,517,000</div> <div> <div>Year 2</div> <hr/> <div>4,900 Students</div> </div> </div>	<div> <div>\$4,800,000</div> <div> <div>\$15,600,000</div> <div>State</div> </div> <div> <div>BASE Taxes</div> <div>\$6,884,000</div> </div> </div> <div> <div>Taxes = 11,684,000</div> <div> <div>Year 2</div> <hr/> <div>4,800 Students</div> </div> </div>
---	---	---

Impact of Raising Entitlements on Property Taxes
No Growth in Budget, But Property Taxes decrease

<div> <div>\$4,100,000</div> <div> <div>\$16,300,000</div> <div>State</div> </div> <div> <div>BASE Taxes</div> <div>\$7,193,000</div> </div> </div> <div> <div>Taxes = 11,293,000</div> <div> <div>Year 1</div> <hr/> <div>5,000 Students</div> </div> </div>	<div> <div>\$3,700,000</div> <div> <div>\$16,600,000</div> <div>State</div> </div> <div> <div>BASE Taxes</div> <div>\$7,293,000</div> </div> </div> <div> <div>Taxes = 10,993,000</div> <div> <div>Year 2</div> <hr/> <div>5,000 Students</div> </div> </div>	<div> <div>\$3,300,000</div> <div> <div>\$16,900,000</div> <div>State</div> </div> <div> <div>BASE Taxes</div> <div>\$7,493,000</div> </div> </div> <div> <div>Taxes = 10,793,000</div> <div> <div>Year 2</div> <hr/> <div>5,000 Students</div> </div> </div>
---	---	---